Closing the gap: Matching attackers on B2B sales for SMEs

In times of crisis the most resilient players gain disproportionate benefits. Innovating and offering better products are important, but not enough to realize the full gains. In a highly competitive market such as the small and medium-size enterprise (SME) space, the ability to structurally enhance sales capabilities through advanced analytics is paramount for providers of payments services.

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The increasing digital sophistication of SMEs and the impact of COVID-19 on technology adoption and ecommerce have heightened the need for payments providers to offer more advanced yet easy-to-use solutions, while simultaneously expanding into adjacent sectors to create broader offerings enabling a straightforward, customer-oriented delivery model.

The challenge for payments acquirers aiming to compete in the SME market is two-fold: the disparate needs of various segments, and rapidly changing channel preferences. The result is that the segment is often perceived as "difficult and costly to serve." Legacy providers should explore the potential of advanced analytics and revamped distribution approaches as avenues to successfully and profitably serving this sizable market.

While SMEs have been gaining in technological sophistication for several years, the current crisis has emphasized and accelerated two trends:

1. SMEs have recognized the importance of technology to solve both short- and long-term needs, therefore are accelerating adoption.
2. E-commerce has become an operational imperative rather than a "nice to have."

In this context, nonbank payments companies have rapidly emerged as go-to partners for SMEs, fueling digital transformation through high-tech solutions addressing payments needs and beyond.

What an SME client values varies significantly based on their size and digital channel penetration. For example, a small physical merchant may require an excellent in-store payment experience and integration with store management platforms. Multichannel players, on the other hand, may prefer a seamless customer journey integrated across all channels and devices, along with loyalty, customer engagement, and marketing services. Purely digital SMEs typically need an all-in product suite for the most effective and seamless experience, with special attention to tools and analytics to increase conversion (Exhibit 1).

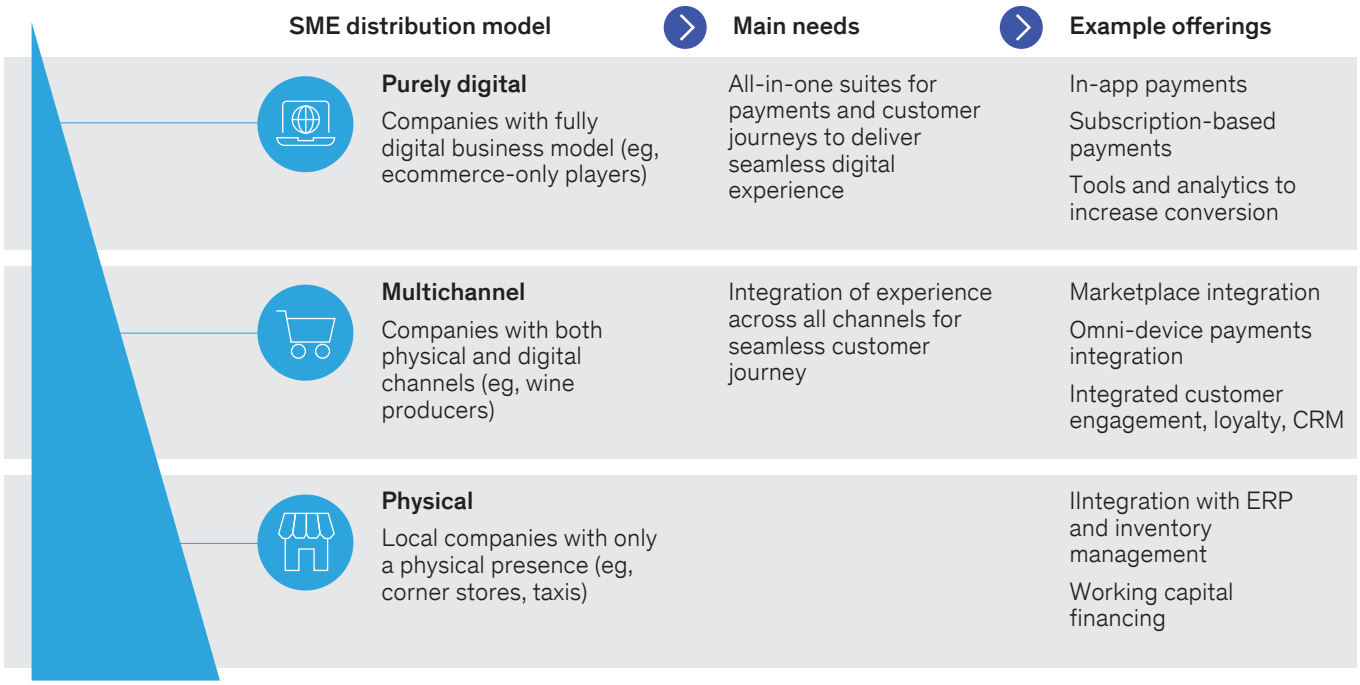
From a distribution perspective, the landscape is likewise heterogeneous, with go-to market models spanning from purely digital and self-serve to in-person direct and intermediated models relying on account service providers.

SME needs differ substantially from those of larger corporates in terms of user experience, the latter typically requiring higher levels of personalization and differentiation, as well as physical coverage, while SMEs prioritize features such as self-serve access, simplicity, and consumer-centric interfaces.

Traditional banks and merchant acquirers often face barriers that limit SME market success. They frequently rely on "one-size fits all" distribution models with little differentiation for merchant size or sophistication level. They only seldom leverage technology at scale either to improve distribution

Exhibit 1

SMEs present different needs according to their channel strategy.


SME distribution model
Main needs
Example offerings
Purely digital
Companies with fully digital business model (eg, ecommerce-only players)
All-in-one suites for payments and customer journeys to deliver seamless digital experience
In-app payments
Subscription-based payments
Tools and analytics to increase conversion
Multichannel
Companies with both physical and digital channels (eg, wine producers)
Integration of experience across all channels for seamless customer journey
Marketplace integration
Omni-device payments integration
Integrated customer engagement, loyalty, CRM
Physical
Local companies with only a physical presence (eg, corner stores, taxis)
IIntegration with ERP and inventory management
Working capital financing

Source: McKinsey analysis

channels—instead leaning heavily on outbound phone calls and inbound branch visits—or to use advanced analytics (only a few players have adopted machine-learning models to spot opportunities for cross-selling and for preventing churn). Many traditional players also appear reluctant to leverage partnerships to complete their product offering. On the other hand, attackers like Square, Stripe, or Mollie have rapidly advanced from offering a single innovative service to building integrated ecosystems of differentiated high-tech products powered by partnerships and analytics.

Distinctive and innovative product offerings, integrated across the value chain and designed for an exceptional user experience, have become necessary to compete with digital attackers, but products alone are not sufficient to win the SME market. They must be combined with a superior service model and effective use of analytics to enable simple and differentiated pricing models.

Acquirers seeking to innovate in the SME segment must establish effective direct distribution of products with self-serve access through digital channels. Acquirers relying on distribution models intermediated by universal banks should also ensure their sales force is equipped with the support materials and training they need to enable SMEs to realize the potential of the products offered.

A successful low-cost distribution model combines the digital and physical to create a compelling customer journey

A fully digital distribution and service model is uncommon among banks and incumbent acquirers, but can be the key to tapping into multiple levels of customer excellence. Best practices include automated, rapid onboarding, webshop setup, simple user experience, and easy post-sales data reconciliation.

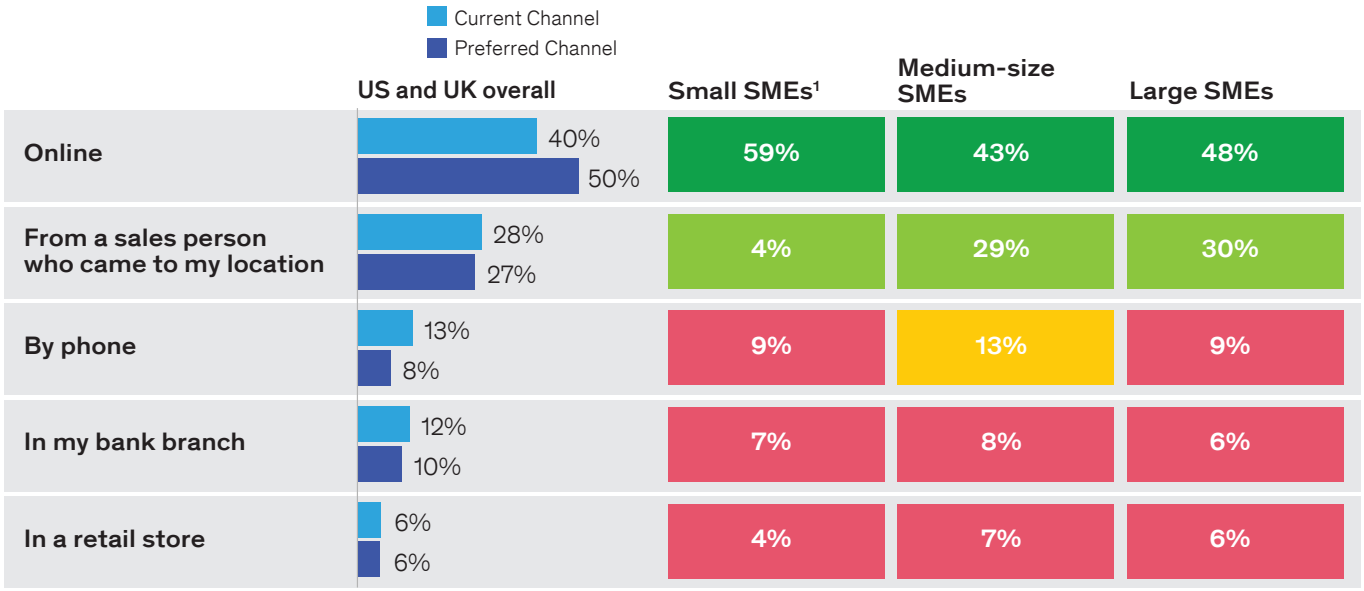
Even for traditional payments acquirers, effective use of digital channels and partnerships is key to winning in the SME market. In fact, online is the preferred channel for purchasing payments for SMEs, while physical stores and branches are the least preferred, closely followed by the phone channel (Exhibit 2).

Due to the increasing technical advancement of payments products and the growing opportunities for cross-selling, SME service models are also shifting from a reactive to a proactive stance, continuously offering new products to answer

Exhibit 2

Online channels expected to supplant phone and in-person for SME sales.

If you had a choice, how would you prefer to purchase payments products and services?
% respondents selecting answer



[1] Revenues: small ($0-$2.5M); medium ($2.5M–$50M); large (>$50M). US and UK overall, N=1,109; small, N=366; medium, N=322; large, N=331 .
Source: McKinsey Merchant Survey of 1,000+ merchants in the US and the UK in 2018.

evolving company needs. While depending on geography and economics, human-based first sales and renewals may still be acceptable, including leveraging partnerships with platform players and cash register/enterprise software providers, cross-selling should be done mainly through direct channels with self-serve access. Day-to-day customer service activities can also be handled mainly through self-serve access tools, with physical specialized coverage reserved for the most valuable clients with the most complex needs.

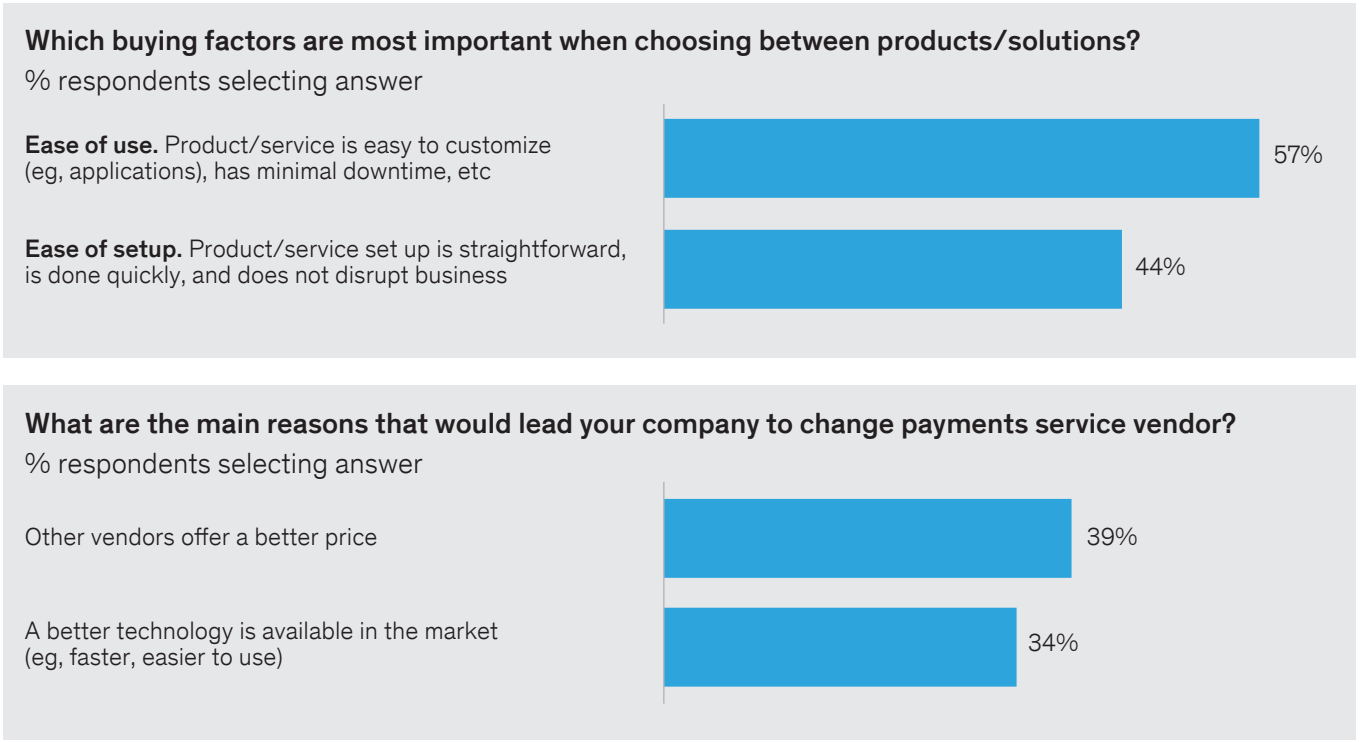
UK payments fintech SumUp, which offers portable and user-friendly card readers to small merchants, has partnered with customer service provider Solvemate to design an AI-powered chatbot enabling merchants to receive assistance through a direct channel and scale up their customer service. The chatbot has achieved a 72 percent resolution rate (no further interaction required), allowing the firm to reduce demand for agent assistance by 22 percent.

Advanced analytics and effective sales are keys to increasing revenues and retaining customers. Accessible technology and increasing demand for payments solutions have enabled new players to enter the payments landscape, competing on pricing and innovative solutions. Digital attackers are creating products that are easy to use and setup, satisfying the most important buying factors for B2B payments products. They have also developed advanced products at competitive prices, making a compelling case for companies to switch payments providers (Exhibit 3). Furthermore, the current challenging economic environment is applying existential pressure on many SMEs, creating even greater price sensitivity for payments services.

In this context, accurate segmentation of the SME customer base is crucial. Advanced analytics can play a substantial role here, improving pricing, cross-selling, and retention. For example, a large acquirer with a history of non-standardized pricing with little differentiation and infrequent adjustments, and a merchant population widely varying in profitability, boosted revenues by roughly 17 percent with a pricing strategy combining traditional commercial excellence levers with advanced analytics. These results were heavily reliant on machine learning to segment customers based on target margin and churn propensity. The segmentation enabled improved execution of more-for-more (MFM) repricing, targeting merchants

Exhibit 3

SME merchants demand ease of use/setup, and are willing to change providers for better prices and technology.


Which buying factors are most important when choosing between products/solutions?
% respondents selecting answer
Ease of use. Product/service is easy to customize (eg, applications), has minimal downtime, etc
57%
Ease of setup. Product/service set up is straightforward, is done quickly, and does not disrupt business
44%
What are the main reasons that would lead your company to change payments service vendor?
% respondents selecting answer
Other vendors offer a better price
39%
A better technology is available in the market (eg, faster, easier to use)
34%

Source: McKinsey Merchant Survey of 1,000+ merchants in the US and the UK in 2018.

below their segment's target margin and with low churn propensity. The repricing was implemented in three waves per year and paired with detailed and effective communications conveying the benefits.

The acquirer also developed an analytics model that could extract true churn signals in order to identify SME customers at high churn risk that should be excluded from repricing (and enabled the acquirer to take actions to win those customers back).

Advanced analytics can be also used to optimize subscription payments, including boosting digital collections. Card expiry is one of the most vexing challenges for merchants in retaining customers, given cumbersome legacy processes to update cards on file. A number of companies in the market automate payments credential updates, leveraging algorithms to reduce customer churn.

Finally, advanced analytics can help uncover cross-selling opportunities with existing clients. For example, website traffic data can be used to update client dashboards, automatically recommending upgrades to a plan or other products. Companies like Cardlytics and Affinity offer white-labeled services that help financial institutions and merchants better understand their customers and target them with actionable offers.

Swedish bank Klarna provides an array of financial services extending beyond payments for online storefronts, and uses advanced analytics to increase sales while minimizing financial risks. Klarna has created accurate algorithms based on millions of purchase events gathered over time, enabling their Pay Later service (post-purchase payments in which Klarna assumes all financial risk of customer non-payment) to deliver the market's highest acceptance rate and near- immediate purchase approval.

Kabbage also offers to support cross-selling opportunities. Its advanced analytics models support the micro-segmentation of SME clients based on their needs, and the creation of bundles of products addressing each microsegment, including value-added services like business and competitive insights and merchant financing based on billing

trends. Kabbage has a fully automated platform that enables underwriting decisions in under seven minutes, leveraging real-time data from sources including social media, payments data, orders from ecommerce platforms, and shipping info to assess company risks.

While advanced analytics can help spot cross-selling opportunities through customer micro-segmentation, the extensive use of digital marketing paired with enhanced sales and technology capabilities and a systematic approach is what converts those opportunities into recurring revenues and fuels success (e.g., state-of-the-art digital sales channels with sales teams comprised of tech-savvy salespeople and/or technical resources with customer-facing experience, relying on systematic sales routines with a successful track record).

Human-based sales are still relevant in certain geographies and economies, and can even be turned into a competitive advantage against attackers that rely solely on digital channels. But human-based sales need to be supported by superior technical knowledge that helps SMEs realize the full potential of modern payments solutions, and a systematic approach to converting leads into new customers. Traditional banks and acquirers relying on in-person sales but lacking specialized salespeople and effective sales routines must rapidly catch up to compete with the state-of-the-art digital attackers. A major European bank successfully implemented a sales network capability program, achieving significant results in terms of products sold (increase of 20 pecrcent), customer satisfaction (a nearly nine-fold NPS improvement), and employee satisfaction (up 27 percent). The program was largely designed from the bottom up, leveraging the involvement of top-performing employees and sales leaders to build capabilities through workshops and trainings; it also involved the use of a multichannel viral communication to foster adoption of sales best practices and routines.

Three imperatives for capturing SME market share

While digital attackers are gaining scale and price pressure is increasing, the evolving needs of SMEs create unprecedented opportunities for payments providers. Three important imperatives for success:

- **Understand SMEs in depth.** Leverage internal and external data to segment SMEs based on their specific needs, and models that improve pricing, spot cross-selling opportunities, and predict customer churn.
- **Give SMEs what they need.** Develop product offerings (e.g., bundles of payments and non-payments products and services) that answer the specific needs of each segment, leveraging partnerships and focusing on ease of use and intuitive setup.
- **Let SMEs serve themselves, but deliver knowledge when they need it.** Set up direct channels with self-serve access tools for cross-selling and day-to-day service activities, while increasing the technical knowledge and effectiveness of the salesforce.

These actions require investments in new technologies and capabilities, but these investments can be well worth it. The SME segment is more attractive and essential than ever, and may represent a key success factor for acquirers going forward.

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